BEDELL FRAZIER

INVESTMENT COUNSELLING, LLC

A BLUESPRING WEALTH PARTNER

Leadership and Legacy

QUARTERLY NEWSLETTER

January 2025

Letter from the President

Meredith M. Rosen, President

As we welcome 2025, we have much to celebrate at Bedell Frazier. This year marks our 50th anniversary, a tremendous milestone that reflects decades of dedication, trust, and collaboration with our valued clients. It is also a time of exciting transition and opportunity as we honor our past while looking ahead to the future.

After over two decades of exceptional service, Mike Frazier, has transitioned into the role of Chairman, I have risen into the role of President and Mike Harris has formally ascended to the title of Chief Investment Officer. While our leadership evolves, our mission remains steadfast: to deliver exceptional service and results. I am honored to be guiding our dedicated team as we work with families to navigate and achieve their goals.

Building on the values and vision that have defined Bedell Frazier for 50 years, I am excited to bring not only professional expertise but also a deeply personal approach to client service.

Our clients are not numbers to us, they are valued families who we guide along the path of life. Experiences shape the path, and we assist in navigating financially as well as providing invaluable guidance based on life experience, not only from ourselves, but also the thousands of families we have worked with.

We are committed to adapting and evolving our investment strategies to meet the ever-changing market landscape. Mike Harris will leverage his nearly two decades of expertise and deep understanding of financial markets to guide our approach. Mike, joined by other members of our team with decades of experience, brings a blend of insight, discipline, and innovation to our investment process. Together, they are focused on identifying opportunities that meet the needs of our clients. As markets evolve, so do our strategies, always with your long-term success as our priority.

One common goal for our clients is retirement. We are very pleased that in 2024, we prepared and presented more retirement plan projections than any other year ever before. Our goal for 2025 is to exceed this amount as we continue to grow and develop our planning team not only in size but also in sophistication. In the past year, our financial planning team attended several trainings and conferences to stay sharp. Additionally, Thomas Howard completed his Enrolled Agent training so that we can provide more robust guidance on tax planning matters and Debbie Mitchell attained her Certified Divorce Financial Advisor (CDFA®) designation so that we can advise those who need to navigate the financial complexities of divorce.

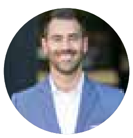
As we celebrate this remarkable anniversary year, we look forward to deepening our relationship with each of you. Thank you for being an integral part of the Bedell Frazier story—we wouldn't have reached this milestone without your trust and support.

Here's to many more years of success to come!

MARKET FOCUS

Navigating the Crossroads

From Mega Caps to Consumer Divergences–Unpacking the Forces Shaping the Year Ahead



By Mike Harris, Chief Investment Officer

Mega Caps Chuggin': Can They Continue?

2024 was all about the Mega Cap stocks carrying the load. The top 10 S&P 500 stocks now represent nearly 39% of the index, an all-time high. The top 25 companies are over 50% of the index now. Concentration is increasing.

The investment in AI has carried the Mega Cap's stronger fundamentals much more than the broad Market. Without the Mega Caps, earnings growth last year would have been barely up vs the +9% that is likely to be reported. These behemoths have been carrying the weight. Earnings growth was not widespread; in fact, Small Caps saw earnings decline last year. Concentration is a sword that cuts both ways.

The last time the S&P 500 outperformed the equal-weighted S&P 500 by this wide a margin was 1999. The subsequent years saw the Market Cap weighted S&P 500 down, while the equal-weighted index was up. As 2025 moves on, we will focus on the equal weighted and lower valuation areas of the Market. We view them as attractive opportunities.

Mega Caps will continue to lead until another growth scare rolls in. With valuation extremes in these names, a lot of anticipated optimism of future growth is priced in, and rightfully so as this has been the undeniable source of growth. Mark Twain still says it best: "History doesn't repeat itself, but it often rhymes."

The Street Forecasts

Wall Street analysts are clustering bullishly for 2025 forecasts with an average target of 6500 for the S&P 500, representing 10% upside from 2024 closing level. This is the exact opposite of last year when the Street was very conservative and wildly lower in their forecasts than what came to fruition. There are virtually no Bears to be seen, they are firmly in hibernation. This gives us a touch of pause. Earnings growth is estimated to come in at +15% or $275 for '25 up from nearly $240 expected to have been earned for 2024. These likely prove overly optimistic as the year plays out.

Global Markets: Not Feeling the Love

Can the US continue to diverge from the global pack? That's a big question entering 2025. With the European Union having stalled out economically in the back half of '24 and now losing altitude, Canada already in a quasi-recession and the strong US Dollar hitting emerging markets, the global backdrop is not as rosy as the US. In fact, there was only one G20 country equity market that outperformed the US last year, Turkey. The Global ACWI-excluding the US index was up a muted +2.25% in 2024, highlighting a very divergent global landscape. China is stimulating just enough to keep growth where they want it, but with their consumer class reeling and the real estate market in tough shape, will it be enough? Throw in the added uncertainty of the uptick in China trade wars with the Trump administration and it looks to be a challenging backdrop. The global landscape leaves us more questions than answers entering the new year. We will be tracking closely.

The Fed: In a Pickle

With stubborn inflation and recent uptick closer to 3% than the Fed's mandate of 2%, significant monetary easing has been priced out of the Market. The Market is only pricing in one Fed cut for 2025, not too long ago it was another 4 on top of that. The labor market remains firm, with small deterioration also giving the Fed less ammo to aggressively cut rates. The unknown impact of possible Trump tariffs and the Fed is on its heels entering 2025. The term "Fed pause" will likely gain momentum in 2025.

The pickle: With inflation not extinguished and re-emerging combined with labor markets, growth still strong and not slowing enough to provide the Fed cover; they can't cut rates too fast or too much without risking another bout of inflation. However, if they keep rates too high for too long and the labor market and broader economy weaken more suddenly, then they overstayed their welcome with the tighter higher for longer policy and risk more downside to the economy. Quite a self-inflicted pickle the Fed finds themselves in.

Bond Market: Inflation, Growth and the Debt

The Bond Market will play a crucial role in 2025 and, in some big ways, call the shots for the Market.

Something that has never happened before: The Fed cut interest rates by 1% from September 2024 through year-end, while the benchmark 10-year Treasury yield actually rose 1%. Interesting lead into 2025 to say the least. Reminder: The Fed controls the front-end of the yield curve (short-term Bills to 2-year Bonds) while sentiment, inflation, growth and the burgeoning debt are responsible for the longer-end of the yield curve (10-year to 30-year Bonds).

The Bond Market's recent rise in yields is a combination of all those. An unsustainable fiscal backdrop has seen outstanding debt breach $36 Trillion. Net interest on our debt is now running at an annual clip of $1.2 Trillion. Putting that in perspective, the US is estimated to have total revenues for 2025 of $5.5 Trillion. This means 21% of estimated '25 revenue is being paid out in interest. Staggering.

Inflation is remaining sticky with headline CPI at 2.7% and 3.3% on core inflation (excluding food and energy), and real GDP growth for 3Q'24 at +2.7%; you get a sense of why Treasury yields are entering 2025 at 4.57%, up from their '24 lows of 3.6%. Historically there has been a loose guideline of GDP + Inflation = 10-year Treasury yield. Until inflation or growth cools, rates are likely to remain in this higher range.

We are fans of the Bond Market. Yields are back to 2006-2007 levels; yes, it's been that long! We continue to maintain a shorter duration, which has served us well, allowing us to compound the high coupons and interest payments on the front end of the curve. We are on the lookout for a buying opportunity to extend Bond duration in 2025. We think that will happen in the first half of the year on the back of some bad inflation readings. Bonds could be the big contrarian performer in 2025. Our eyes are wide open seeking out Bond opportunities.

Valuations: Extreme Relative to History

2024 was a year of multiple expansion. In other words, Markets grew more than their earnings or fundamentals did. We enter 2025 with some of the most expensive valuations in history on a number of metrics. Multiple expansion Markets are by far the toughest to navigate, because they can last against odds for quite some time, but if a catalyst arises to revert valuations to the mean, that's when huge bouts of volatility and downside occur. Remember 2022?

If analysts are correct and earnings rise 15% next year the Market would be trading at 22x forward earnings. Around 18x is the average, dating back to the financial crisis. 17x is closer to the 20-year average. On a simple valuation basis, one could argue Markets are 15-20% overvalued.

If earnings continue to deliver, expensive valuations won't matter as much. The Market could remain expensive for longer. In the event earnings disappoint, a reversion to the mean on valuation basis could be a painful correction for equities. We are paying close attention to valuations. Growth has outperformed Value and Market capitalization-weighted indexes have outperformed equal-weight indexes for quite some time. 2025 may see these revert to more historical norms.

The Consumer: Divergences Afoot

The high-end consumer was doing most of the heavy lifting to end 2024. Given higher wages outstripping inflation, real-estate prices, asset prices, and higher income from risk-free Bonds, one could argue the high-end American has never been better off and has provided real consumption growth, outpacing many expectations. The same cannot be said for the lower-end or middleclass. Americans whose wages haven't kept up with

inflation, don't own a home, or hold assets, currently have consumer confidence amongst the lowest of all time. A wider gap between the groups has rarely been seen.

The labor markets remain secularly tight, with the unemployment rate at historically low levels. This backdrop keeps spending going and the economy on the right track. We've seen some cooling in the labor market around the edges, even Fed Chair Powell acknowledged as much, but nothing of yet to break the strong labor trend of the past few years.

Housing has cooled on transaction volumes to multi-decade lows with higher for longer interest rates. Until inflation returned more than expected to end 2024, a looser Federal Reserve and lower rates were believed to benefit the housing market in 2025. With higher for longer or a Fed Pause, the housing market likely remains cool in the new year. Rate locked homeowners and record-low affordability makes a housing recovery in 2025 unlikely. Housing has traditionally played a larger role in the business cycle; this cycle hasn't seen that. AI overpowered housing.

Higher rates are starting to bite credit card and auto loan balances; we've seen an uptick in delinquencies of late. These are signs of modest stress under the surface for low and middle-class consumers.

If the labor market remains firm and asset prices hold in 2025, the consumer likely remains in good shape and provides a strong economic backdrop. However, if the unemployment rate ticks up and or asset prices correct, we could see a weaker consumption backdrop in 2025 which creates a touch of a negative feedback loop. Labor markets will play a crucial role in '25 with consumption remaining a large part of the US Economy.

Unique Times: Create Opportunities

From Currency wars to potential Trade wars. From AI secular growth theme to the reeling lower-income US consumer. Strong domestic markets to lackluster international markets. Tight credit spreads to US consumer uptick in delinquency rates. From near-record-high real estate prices to the near-lowest transaction volume and mortgage applications on record. From the AI buildout requiring an incredible amount of Energy, but energy prices not reflecting it. The overspending in Washington to the lackluster small business confidence and investment plans.

There seems to be quite a few things that seem a bit "off." We see it. We feel it. We sense it. You may too.

As a below-average volatility 2024 rolls into 2025, we expect higher volatility to return. Valuations will matter at some point. Both undervalued names returning higher to fair value and overvalued areas correcting lower to fair value. Cycles will cycle and we expect more of that in '25 and beyond.

We are ready knowing attractive opportunities will arise in all asset classes. We remain long-term investors in key themes and sectors, while understanding quantifiable risks. We are confident that a quantitatively well-diversified portfolio with appropriate risk will get us through whatever "off" feeling materializes in the Markets. We enter 2025 with confidence and purpose, ready to navigate markets with our clients' best interest always at the forefront.

FINANCIAL PLANNING

5 Smart Money Moves to Ring in the New Year

Thomas Howard, CFP®, EA, Director of Financial Planning

As we ring in the New Year, we wish to embrace 2025 to be the best we can be with our financial decision-making. The Bedell Frazier Financial Planning team has compiled a list of the top five financial planning and tax planning considerations.

1. Review your 2024 spending, make a budget for 2025

Before planning for the New Year take some time to evaluate your spending and savings from 2024.

Did you find the balance you were looking for between saving and spending?

Are there any expenses from 2024 that you could cut back on in 2025?

What budget items would you like to increase in 2025?

What spending goals are very important to you? Know your why on spending!

Be honest in your evaluation of your past spending and your budget for 2025. The point of this exercise is to reflect on the past year to see where you can improve. Have your goals shifted over the past 12 months? The only constant in life is change.

When budgeting for the New Year identify your essential costs like your housing, transportation, insurance, and groceries. Tackling any credit debt should be at the top of your list to free up cash flow for saving and investing while improving your credit score. Saving for retirement and kids' education should be the next priorities in your budget. After three years of high inflation, budgeting is more important than ever.

2. Max out your retirement accounts savings

One of the best moves you can make for retirement success is to maximize your retirement account contributions while working each and every year. For 2025, the new cost of living adjustments from the IRS allows you to contribute $23,500 to your 401(k); an increase of $500 from 2024. For individuals 50 and older, the catch-up remains the same as last year at $7,500.

The Setting Every Community Up for Retirement Enhancement (SECURE) 2.0, which passed in December of 2022, rolls out some new features in 2025. We have a new Super Catch-Up for those ages 60, 61, 62, or 63 whose catch-up is increased from standard $7,500 to $11,250. Combined, these workers can defer about 14% more than last year, with a total employee contribution of $34,750 for 2025. These changes also apply to 403(b) and 457(b) plans.

Some other new SECURE Act 2.0 features that go into effect in 2025 and beyond:

Automatic 401(k) Enrollment – Starting in 2025, all eligible employees will automatically be enrolled in their 401(k) plan with a 3% deferral. You can opt-out, but enrollment will be automatic.

" I have one life and one chance to make it count for something. I'm free to choose that something ... my faith demands that I do whatever I can, wherever I can, whenever I can, for as long as I can."

- Jimmy Carter

401(k) Employer Contributions – Employees can now choose to have their employer's matching contributions be allocated to a Roth 401(k) rather than the pre-tax 401(k). Roth matches will be taxable at the time they are made. The upside is no Required Minimum Distributions (RMD) with tax-free growth and withdraws. The decision is to pay taxes now or in the future.

Roth Catch-Up Contributions – Starting in 2026 employees who make over $145,000 per year (indexed for inflation) will have to make any catch-up contributions to their Roth 401(k). This was supposed to go into effect in 2024 but was pushed back to give plan administrators extra time for implementation.

The limit on total employer-plus-employee contributions for 2025 is $70,000, a $1,000 increase from last year.

Contact the Bedell Frazier Financial Planning team if you would like assistance with your 401(k), 403(b) or 457 plan contributions or the asset allocation of your investment choices. We provide that service for you **or your children** free as Bedell Frazier clients, even if we don't manage those accounts.

Individual Retirement Accounts (IRA) contributions remain static in 2025 at $7,000 with the 50 and over catch-up $1,000 for your IRA. The IRA catch-up is now indexed for inflation as part of SECURE Act 2.0 but remains unchanged this calendar year.

SEP IRA contribution levels for 2025 are as much as $70,000 or up to 25 percent of your business earnings, whichever is less.

SIMPLE IRA contribution limit is $16,500 with a catch-up contribution of $3,500 for those 50 and over. For those 60, 61, 62, and 63 the catch-up is increased to $5,250.

3. Roth Conversion

With the expiration of existing tax rates when the Tax Cuts and Jobs Act (TCJA) sunsets at the end of this year and the rising federal budget deficit; higher income tax rates may be on the horizon. A Roth Conversion is a financial planning tool that allows you to take a distribution from your current IRA and roll it over into a Roth account. You pay taxes on that distribution in the current tax year while creating a Roth tax-free bucket for the remainder of your lifetime and your spouse's lifetime (under current tax law).

Some potential benefits of a Roth:

- Tax Diversification – Just as you diversify your investment portfolio you should also consider diversifying your tax liability. Many investors have a disproportionate amount of their net worth tied up in tax-deferred accounts such as 401(k) and traditional IRA. Every time you pull from these accounts it is a taxable event.

- No RMDs – No required minimum distributions during you or your spouse’s lifetime.

- Next Generation Planning – With no RMDs from the account owner or spousal beneficiary, there is more time for assets to grow tax-free. When passed to the next generation assets are withdrawn tax-free, and the account must be emptied within 10 years. A traditional IRA or 401(k) must also be emptied with in 10 years for most non-spousal beneficiaries while generating taxable income with each distribution. Many times these assets are passed to the next generation while they are in their 50s or 60s, which are peak earning and high-tax years.

4. Gifting in 2025

In 2025 the annual gift exclusion increases $1,000 to $19,000 per donor per recipient. If you are married, you and your spouse can combine your exclusions, giving $38,000 per recipient without triggering the gift tax. At its core, the federal gift tax annual exclusion allows taxpayers to transfer significant amounts of money to their children, grandchildren, and other beneficiaries without incurring any gift taxes.

5. Build out or update your financial plan with Bedell Frazier

Working with the Bedell Frazier Financial planning team to design a new or updated financial plan is a great way to start the New Year. We can help quantify the answers to questions: Can you afford the retirement you are dreaming of? Can you take that special vacation? Do you need to continue to work to reach your retirement spending goals? Can you gift money to your kids to help them buy a home? 2025 would be a great time to take advantage of our financial planning offering, which is inclusive as a Bedell Frazier client. If you already have a financial plan, let us refresh it in the New Year.

Contact the Bedell Frazier Financial Planning Team today!

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